

# LEGISLATIVE AUDIT COMMISSION



Review of  
Department of the Lottery  
Year Ended June 30, 1997

622 Stratton Office Building  
Springfield, Illinois 62706  
217/782-7097

**REVIEW: 4068  
DEPARTMENT OF THE LOTTERY  
YEAR ENDED JUNE 30, 1997**

**FINDINGS/RECOMMENDATIONS - 4**

**ACCEPTED - 2  
IMPLEMENTED - 2**

**REPEATED RECOMMENDATIONS - 2**

**PRIOR AUDIT FINDINGS/RECOMMENDATIONS - 6**

This review summarizes an audit of the Department of the Lottery for the year ended June 30, 1998, filed with the Legislative Audit Commission February 24, 1999. The auditors conducted a financial and compliance audit, and they expressed a qualified opinion on the agency's financial statements. The report stated that insufficient audit evidence exists to support the Department's disclosures with respect to the year 2000 issue.

" . . . Because of the unprecedented nature of the year 2000 issues, its effects and the success of related remediation efforts will not be fully determinable until the 2000 and thereafter. . . .the financial statements referred to above present fairly, in all material respects, the financial position of the Illinois Department of the Lottery. . . ."

The Illinois State Lottery Act established the Illinois State Lottery Division within the Department of Revenue. The purpose of the division was to implement and establish within the State of Illinois a lottery to be operated by the State, the net proceeds of which are used for the support of the State's General Revenue Fund and, effective during FY86, the Common School Fund. In July 1986, the Lottery was separated from the Department of Revenue and established as the Department of the Lottery.

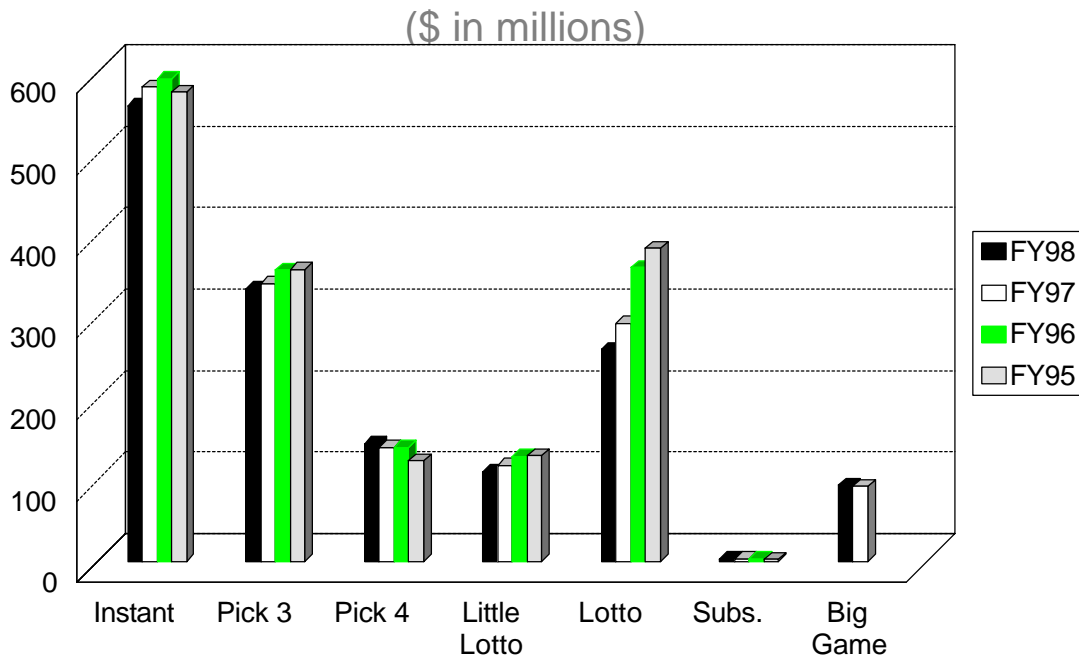
For the one-year period under review Lori S. Montana served as Director of the Department. She was appointed to the position of Director in March 1997.

The number of employees at June 30 of the following years was:

	<b>1998</b>	<b>1997</b>
Lottery Control Board	4	5
Administrative, Financial, & Marketing	232	238
Electronic Data Processing	48	53
<b>TOTAL</b>	280	291

## Ticket Sales and Commissions

# Lottery Ticket Sales



The above chart does not include free instant tickets of approximately \$57,775,135 for the year ended June 30, 1998.

Three of the six lottery games realized a decrease in sales in FY98 compared to FY97. Instant sales decreased by \$23.5 million or 4.2% from FY97 to FY98. Little Lotto sales decreased by \$7.7 million or 7%. Lotto sales decreased \$32.2 million or 12.4%. Pick 3 sales increased \$3.9 million or 1.1%. Pick 4 increased \$5.5 million or 3.8%. The Big Game increased \$1.4 million or 1.5%. Overall, sales receipts in FY98 were \$1,516,610,882, down \$52.8 million or 3.5% compared to FY97.

Lottery proceeds transferred to the Common School Fund are as follows:

FY98 - \$534 million; FY97 - \$583 million; FY96 - \$603 million; FY95 - \$585 million.

In addition to the prizes and administrative expenses paid from appropriated funds, expenses and prizes are paid from Lottery proceeds in the hands of agents, distributors, and independent contractors. These amounts were:

	<b>FY98</b>	<b>FY97</b>
Commissions deducted by agents, distributors, & independent contractors	\$ 104,822,474	\$ 107,621,385
Prizes paid by agents	578,206,810	599,492,002
<b>TOTAL</b>	<b>\$ 683,029,284</b>	<b>\$ 707,050,390</b>

### **Expenditures From Appropriations**

The General Assembly appropriated a total of \$364, 092,370 from the State Lottery Fund to the Department of the Lottery for the year ended June 30, 1998. Of this amount, \$300,000,000 was for payment of prizes, and \$64,092,370 for the operations of the Department. Appropriated expenditures for payment of prizes (in addition to those paid from lottery proceeds in the hands of agents), increased by \$15,749,101 (from \$242,206,836 to \$226,457,735) from FY97 to FY98. Expenditures for the Department's operations increased from \$59,924,283 in FY97 to \$60,319,006 in FY98, an increase of \$394,723 or .6%. Appendix A provides a summary of the appropriations and expenditures for FY98 and FY97.

### **Financial Statements**

The table appearing in Appendix B presents the balance sheets for the Department. The balance sheet stood at \$1,935,264,427 as of June 30, 1998, compared to \$1,636,635,896 as of June 30, 1997. Appendix C is a summary of net revenues for FY98 and FY97. Net income decreased from \$585,917,292 in FY97 to \$535,045,588 in FY98, largely due to a decrease in ticket sales. Revenues decreased from \$1,584,180,882 in FY97 to \$1,541,738,106 in FY98, while at the same time operating expenses increased. Appendix C indicates revenue from unclaimed prizes increased from \$12,968,572 in FY97 to \$23,186,360 in FY98.

### **Accounts Receivable**

Appendix D provides a summary of accounts receivable. Net accounts receivable stood at \$20.1 million as of June 30, 1998 compared to \$17.4 million at June 30, 1997. Of the total accounts receivable, \$2,620,000 is from inactive agents. The Department expects to receive the vast majority of accounts receivable, less \$548,000 for doubtful accounts.

### **Property and Equipment**

## **REVIEW: 4045**

Appendix E contains a summary of the property and equipment for which the Department was accountable during the period under review. Property and equipment increased from \$4,799,468 as of June 30, 1997 to \$4,822,373 as of June 30, 1998. Of the \$4,822,373 balance as of June 30, 1998, \$1,620,228 is attributable to automobiles.

### **Deferred Lottery Prize Winners**

Effective July 30, 1985, the State statutes provide that the State Treasurer may, with consent of the Director of the Department of the Lottery, contract to invest in securities which provide payments corresponding to the Lottery's obligation to winners. The State Treasurer transfers annual maturities of investment to the Deferred Lottery Prize Winners Trust Fund to finance installment payments to prize winners. The Lottery vouchers and disburses these installment payments to prize winners. At June 30, 1998, the payments aggregated to approximately \$2,397,933,452 for Lotto, \$57,573,000 for Lotto 7, and \$42,848,000 for instant games. These securities were purchased at discount rates ranging from 5.79% to 10.89%. The present value of these future installments discounted at the rate in effect at the time of purchase was \$1,533,846,144 at June 30, 1998. Shown in Appendix F is a summary of activity in the Deferred Lottery Prize Winners Trust Fund.

### **Accountants' Findings and Recommendations**

Condensed below are the four findings and recommendations included in the audit report. Two of the recommendations were repeated from prior audits. The following recommendations are classified on the basis of information provided by Lori S. Montana, Director, in a letter dated March 18, 1999.

#### **Accepted**

#### **1. Comply with requirements that all evaluations be completed on a timely basis. (Repeated-1996, 1997)**

**Findings:** The Department has not performed employee evaluations on a timely basis for approximately 49% of its employees. Twenty-four percent of the evaluations were up to one month late, 8% were one to two months late, and 17% were over two months late. Only 51% were prepared on a timely basis.

Because the evaluations are required prior to satisfactory or superior performance pay increases, untimely completion results in delays in awarding pay increases to deserving persons. Also, without timely evaluations, employees are not made aware of supervisors' assessments of their performance.

**Response:** Accepted.

**2. Continue to develop and maintain a comprehensive policies and procedures manual. (Repeated-1997)**

**Findings:** The Department's policies and procedures manual has not yet been completed. The individual sections of the current manual were written in several different formats and did not contain uniform indexing methods. As of June 30, 1998 updates have been made to many of the sections. The Department has ordered a software package for converting the various sections into a comprehensive uniform manual. Failure to maintain an updated policies and procedures manual detrimentally affects the training of employees, guidance for existing employees, and maintenance of the Department's internal control.

**Response:** Accepted.

**Implemented**

**3. Inventory stored records, submit lists of records no longer needed to the State Records Commission, and establish a program for periodic destruction of records no longer needed.**

**Findings:** The Department has not maintained an active, continuing program for the economical and efficient management of the efficient management of the agency's records. Some of the boxes of records are dated 1978. The lack of a program for the efficient management of records has resulted in an overcrowded situation and unsafe working conditions in the warehouse.

**REVIEW: 4045**

**Response:** Implemented.

**4. Require dates on all voucher signatures.**

**Findings:** The Department did not require that the signatures approving vouchers include the dates of approval. Examination of 320 vouchers revealed 171 instances in which the dates of the signatures were missing. Without travel voucher dates, it is impossible to know if travel vouchers are being timely submitted and whether late payment interest is due. Invoice vouchers not containing dated signatures may be returned by the Comptroller.

**Response:** Implemented.

### **Emergency Purchases**

The Illinois Purchasing Act (30 ILCS 505/1), which was in effect during the one-year period under review, stated that “the principle of competitive bidding and economical procurement practices shall be applicable to all purchases and contracts ...” The law recognized that there will be emergency situations when it will be impossible to conduct bidding. It provided a general exemption for emergencies “involving public health, public safety, or where immediate expenditure is necessary for repairs to State property in order to protect against further loss of or damage ... prevent or minimize serious disruption in State services or to insure the integrity of State records.”

State agencies were required to file an affidavit with the Auditor General for emergency procurements that were an exception to the competitive bidding requirements per the Illinois Purchasing Act. The affidavit was to set forth the circumstance requiring the emergency purchase. The Commission received quarterly reports of all emergency purchases from the Office of the Auditor General. The Legislative Audit Commission was directed to review the purchases and to comment on abuses of the exemption.

During FY98, the Department did not file any affidavits for emergency purchases.

### **Headquarters Designations**

The State Finance Act requires all State agencies to make semiannual headquarters reports to the Legislative Audit Commission. Each State agency is required to file reports of all of its officers and employees for whom official headquarters have been designated

**REVIEW: 4045**

at any location other than that at which their official duties require them to spend the largest part of their working time.

The Department of the Lottery indicated for the period January 1 through June 30, 1997, the Department had 71 employees assigned to locations other than official headquarters.



**REVIEW: 4045**  
**DEPARTMENT OF THE LOTTERY**  
**YEAR ENDED JUNE 30, 1997**

**APPENDIX A**

**Summary of Appropriations and Expenditures**

	FY97	Expenditures	
	<u>Appropriation</u>	<u>FY97</u>	<u>FY96</u>
<b><u>State Lottery Fund</u></b>			
Personal Services	\$ 8,459,300	\$ 8,437,277	\$ 8,050,351
Retirement, Pick-up	338,400	331,523	319,600
Retirement	423,300	422,452	387,238
Social Security	641,800	626,052	598,951
Group Insurance	1,208,600	1,062,941	1,012,188
Contractual Services	26,710,900	26,077,465	24,952,396
Travel	131,200	117,940	135,625
Commodities	74,000	53,768	50,235
Printing	32,000	30,454	26,959
Equipment	406,400	393,705	245,161
Electronic Data Processing	3,482,400	3,173,500	3,039,684
Telecommunications	9,131,800	8,703,479	7,895,746
Operate Auto Equipment	287,500	283,402	262,897
Lottery Control Board	10,200	6,401	7,144
New Lottery Games	11,930,000	10,181,476	11,545,363
Refunds	<u>50,000</u>	<u>22,448</u>	<u>30,869</u>
<b>Total Lottery Fund</b>	<b><u>63,317,800</u></b>	<b><u>59,924,283</u></b>	<b><u>58,560,407</u></b>
<b>Payment of prizes *</b>	<b><u>320,000,000</u></b>	<b><u>242,206,836</u></b>	<b><u>229,477,378</u></b>
<b>TOTAL</b>	<b><u>\$ 383,317,800</u></b>	<b><u>\$ 302,131,119</u></b>	<b><u>\$ 288,037,785</u></b>

\* Only includes those paid by warrant. Excludes prizes paid by agents and commissions and fees paid to agents, distributors, and independent contractors totaling \$707,050,390.

**REVIEW: 4045**  
**DEPARTMENT OF THE LOTTERY**  
**YEAR ENDED JUNE 30, 1997**

**APPENDIX B**

**Comparative Balance Sheets at June 30**

<b><u>Assets</u></b>	<b><u>FY97</u></b>	<b><u>FY96</u></b>
Cash	\$ 7,094,845	\$ 5,801,197
Locally held fund	1,278,031	2,121,018
Accounts receivable, net	17,554,805	16,213,216
Investments in prize securities, current portion	175,751,581	168,574,239
Investments in prize annuities, current portion	14,006,287	14,100,553
Due from other funds	25,101,414	16,097,192
Deferred agent commissions	88,770	72,150
Inventory	2,843,717	4,774,016
<b>Total assets</b>	<b><u>243,719,450</u></b>	<b><u>227,753,581</u></b>
<b><u>Long-Term Assets</u></b>		
Investments in prize securities	1,325,628,127	1,342,678,653
Investments in prize annuities	65,593,506	74,769,841
Equipment, net of accumulated depreciation	1,694,813	1,823,762
<b>Total long-term assets</b>	<b><u>1,392,916,446</u></b>	<b><u>1,419,272,256</u></b>
<b>TOTAL ASSETS</b>	<b><u>\$ 1,636,635,896</u></b>	<b><u>\$ 1,647,025,837</u></b>
<b><u>Liabilities &amp; Retained Earnings</u></b>		
Security prizes payable, current portion	175,751,581	168,574,239
Annuity prizes payable, current portion	14,006,287	14,100,553
Deferred revenue	2,607,364	2,428,012
Accounts payable & accrued expenses	11,398,538	9,879,733
Leases payable-current portion	38,844	-
Accrued prizes payable	11,480,561	10,619,323
Due to State Lottery Fund	469,975	133,148
Other	1,678,868	403,641
<b>Total liabilities &amp; retained earnings</b>	<b><u>217,432,018</u></b>	<b><u>206,138,649</u></b>
<b><u>Long-Term Liabilities</u></b>		
Security prizes payable	1,325,628,127	1,342,678,653
Lease payable	17,762	56,677
Annuity prizes payable	65,593,506	74,769,841
Retained Earnings - Reserved	27,964,483	23,382,017
<b>TOTAL LIABILITIES</b>	<b><u>\$ 1,636,635,896</u></b>	<b><u>\$ 1,647,025,837</u></b>

**REVIEW: 4045**  
**DEPARTMENT OF THE LOTTERY**  
**YEAR ENDED JUNE 30, 1997**

**APPENDIX C**

**Comparative Summary of Net Income**

<b><u>Revenue</u></b>	<b><u>FY97</u></b>	<b><u>FY96</u></b>
Ticket sales	\$ 1,569,442,916	\$ 1,582,769,640
Unclaimed prizes	12,968,572	24,446,315
Other revenue	1,925,616	1,948,132
Agent license fee	-	17,730
Uncollectible accounts	(156,222)	-
<b>Total Revenue</b>	<b><u>1,584,180,882</u></b>	<b><u>1,609,181,817</u></b>
<b><u>Expenses</u></b>		
Agents commissions & fees	81,136,720	81,765,587
Independent contractors' commissions & fees	19,168,065	19,511,611
Distributors	7,316,600	7,678,801
Other operating expenses	<u>63,228,674</u>	<u>57,626,436</u>
Total Operating Expenses	<u>170,850,059</u>	<u>166,582,435</u>
Prizes	<u>827,413,531</u>	<u>838,967,846</u>
<b>Total Expenses</b>	<b><u>998,263,590</u></b>	<b><u>1,005,550,281</u></b>
<b>NET INCOME</b>	<b><u>\$ 585,917,292</u></b>	<b><u>\$ 603,631,536</u></b>

**REVIEW: 4045**  
**DEPARTMENT OF THE LOTTERY**  
**YEAR ENDED JUNE 30, 1997**

**APPENDIX D**

---

**Accounts Receivable**

	<b>At June 30</b>	
	<b><u>FY97</u></b>	<b><u>FY96</u></b>
Terminal games	\$ 15,759,000	\$ 14,725,000
Instant games and terminated agents	2,264,000	2,122,000
Other	<u>-</u>	<u>-</u>
TOTAL	18,023,000	16,847,000
Less: Allowance for doubtful accounts	<u>594,000</u>	<u>634,000</u>
<b>Net Accounts Receivable</b>	<b><u>\$ 17,429,000</u></b>	<b><u>\$ 16,213,000</u></b>
<b>Total receivables from inactive agents</b>	<b><u>\$ 2,249,000</u></b>	<b><u>\$ 2,114,000</u></b>

---

**REVIEW: 4045**  
**DEPARTMENT OF THE LOTTERY**  
**YEAR ENDED JUNE 30, 1997**

**APPENDIX E**

---

**Summary of Property and Equipment**

	<u>FY97</u>	<u>FY96</u>
<b>Beginning Balance, July 1</b>	<b>\$ 4,923,876</b>	<b>\$ 4,756,687</b>
Add -		
Equipment	323,490	1,011,469
Automobile	<u>246,236</u>	<u>247,269</u>
Total Additions	<u>569,726</u>	<u>1,258,738</u>
Deductions -		
Equipment	508,328	967,555
Automobile	<u>185,806</u>	<u>123,994</u>
Total Deductions	<u>694,134</u>	<u>1,091,549</u>
<b>Ending Balance, June 30</b>	<b><u>\$ 4,799,468</u></b>	<b><u>\$ 4,923,876</u></b>

---

**REVIEW: 4045**  
**DEPARTMENT OF THE LOTTERY**  
**YEAR ENDED JUNE 30, 1997**

**APPENDIX F**

---

**Deferred Lottery Prize Winners Trust Fund**

	<u>FY97</u>	<u>FY96</u>
<b>Beginning Balance</b>	<b>\$ 133,148</b>	<b>\$ 4,340,669</b>
Add - Transfer from State Treasurer	180,939,060	172,762,682
Deduct -		
Installment payments to prize winners	180,570,047	172,354,702
Transfer to State Lottery Fund	-	4,600,000
Transfer to Audit Expense Fund	<u>14,417</u>	<u>15,501</u>
<b>Ending Balance</b>	<b><u>\$ 487,744</u></b>	<b><u>\$ 133,148</u></b>

---